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SUBJECT: EDISON ITALIA OUTLINES THE WAY FORWARD FOR
TURKEY-GREECE-ITALY NATURAL GAS PIPELINE

REF: A. ROME 1005

[1](#)B. ROME 834

Sensitive but unclassified. Not for Internet distribution.

[1](#)1. (SBU) Summary. A/EcMin met May 25 with Roberto Poti, Edison Italia's Vice President for Corporate Development, to discuss Edison's investment in the Turkey-Greece-Italy Interconnector pipeline designed to ship Azeri natural gas to Europe. Edison has partnered with DEPA, Greece's state-owned gas transport company, in the Greece-Italy portion of the pipeline. Edison has committed 175 million euros to the trans-Adriatic natural gas pipeline with an annual capacity of eight to ten billion cubic meters of gas. Poti also briefed A/EcMin on Edison's presence in Iran, where Poti said the company has no "impressive" investments or ongoing operations. End summary.

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The Turkey-Greece-Italy Interconnector
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One pipeline, three sections

[1](#)2. (SBU) Poti said the Turkey-Greece-Italy (TGI) Interconnector, for which it has partnered with the Greek and Turkish national oil companies, is a "strategic" project for Edison. Construction and financing of the TGI Interconnector can be divided into three parts. According to Poti, construction of the first portion of the pipeline, from the Shah Deniz natural gas field in Azerbaijan to Erzurum, Turkey, will be funded by the Shah Deniz consortium and will be finished by the end of 2006. Poti listed British Petroleum, Statoil, and SOCAR (the Azeri national oil company) as members of the consortium. The second leg of the pipeline, running from Erzurum, Turkey, to the Turkey-Greece border will involve upgrading existing Turkish natural gas pipelines and building a pipeline connecting Turkey and Greece. Poti anticipates completion of the Turkey-Greece portion of the pipeline by the end 2007. The final leg is the Italy-Greece Interconnector Pipeline (IGI Pipeline) under the Adriatic Sea from Thessaloniki to Italy. The GOI and GOG signed a bilateral agreement for the construction of the IGI Pipeline, which Poti said gives Edison needed political cover. Poti expects the IGI pipeline to be finished by the end of 2008 or 2009. When it is completed, the IGI Pipeline will deliver eight to ten billion cubic meters a year (bcm/year) of natural gas to Italy, ten

percent of the country's natural gas demand.

Financing

¶3. (SBU) Poti's explanation of how construction of the pipeline is being financed was limited to the pipeline west of Erzurum, Turkey, and excluded the pipeline being built by the Shah Deniz consortium. According to Poti, the pipeline across Turkey will be an upgrade to existing pipelines. The upgrade is necessary to increase pipeline capacity from 2-3 bcm/year to at least 10-11 bcm/yr. Although Poti did not provide figures, he indicated the upgrade would not be expensive, as it only requires the addition of compression stations along the existing pipeline.

¶4. (SBU) Poti stated that DEPA will likely put out bids for the construction of the pipeline across Greece. He noted the Greek government (which owns a majority interest in DEPA) supports the project, which will double DEPA's assets. Construction of the underwater pipeline linking Greece and Italy will be financed jointly by Edison and DEPA through Poseidon, a 50/50 joint venture formed for the purpose of building the pipeline. Poti said construction of the underwater (Poseidon) pipeline will cost 350 million dollars, or 175 million each for Edison and DEPA. He added that construction of the pipeline across Greece (from the Turkey-Greece border west) will cost between 600 and 700 million dollars, and said the Greek government will seek EU financing for the project.

Feasibility and Availability of Azeri Natural Gas:
"If You Build It, Gas Will Come."

¶5. (SBU) The TGI Interconnector is being built in anticipation of natural gas exports from Azerbaijan's Shah Deniz natural gas field, which Poti said will be ready to export natural gas in 2010 or 2011, as much as three years after the TGI Interconnector is completed. Poti said surplus Turkish gas (purchased in anticipation of demand which did not materialize), perhaps including "Bluestream" gas imported from Russia, could be used to fill the TGI Interconnector in the period before Azeri gas is available for export. He commented that although the Russian government has opposed construction of the Nabucco pipeline (to Austria), its attitude towards the TGI Interconnector has changed over time from opposition to interest in using it as another means to ship Russian gas to Europe.

¶6. (SBU) Although final figures for phase two of the Shah Deniz natural gas field will not be ready until September, Poti said Edison has already completed its feasibility studies. According to Poti, the project is feasible assuming that Azeri natural gas will be available, that natural gas prices stay above a certain level, and that transit fees are not excessive. Poti views the Shah Deniz consortium's decision to go ahead with construction of a pipeline from Azerbaijan to Turkey as a sign the gas will be available. As for price, Poti pointed out that European demand for natural gas has been increasing for some time, and shows no sign of decreasing. (Note: Italy is a case in point. It currently produces 40 percent of its electricity using natural gas. This number is expected to increase to 70 percent by 2015. End note.) High oil prices will keep demand and prices up for natural gas, too.

Possible Pitfalls

¶7. (SBU) Poti views Albania as being a potential source of problems. Albania will receive approximately 500 million cubic meters of gas a year via a pipeline spur running from Greece north into Albania. At one point, consideration was given to running the pipeline between Greece and Italy through Albania in order to minimize the length of the underwater pipeline in the Adriatic. This idea was shelved in favor of running the pipeline south of Albania in order to

prevent possible problems with the Albanians taking more than their contracted share of natural gas from the pipeline. As the pipeline is currently envisioned, the Greeks will be able to shut off gas flows to Albania after the Albanians have taken their share of the natural gas. According to Poti, Albania is trying to exert political pressure on the EU to re-route the pipeline through Albania, and a Swiss company has proposed an alternative to the Edison/DEPA project. While it is unclear what the effect of this pressure will be, it concerns Poti, who noted the GOI is very sensitive to issues concerning Albanian political stability. (Comment: We note that neither Switzerland nor Albania are members of the EU, and think that Poti may be overestimating the extent to which EU and Italian concern regarding Albanian stability will affect their support of this economically important project. Poti noted that the added cost of routing the main pipeline south of Albania is negligible. End comment.)

18. (SBU) Poti seemed frustrated by Turkey's slow movement on the TGI Interconnector, and seemed to think that Turkish recalcitrance is in part caused by concerns over how the TGI project will affect Turkey's relations with Russia. Poti noted that a proposal to convert the bilateral Italy-Greece agreement regarding construction of the Greece-Italy portion of the pipeline into a trilateral agreement covering the entire TGI Interconnector has gone nowhere -- the GOI and GOG are still waiting for a response from the Turkish government.

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Edison's Position in the Italian Energy Market
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19. (SBU) Edison is Italy's second largest importer of natural gas and second-largest generator of electricity using natural gas. Edison is half owned by Electricite de France (EDF) and half owned by Italian municipalities. Poti said that by 2015 EDF will consume 40 billion cubic meters of natural gas a year (bcm/year), half of which will be provided by Edison. Edison currently buys natural gas from Eni, Italy's parastatal oil and gas company. Eni imports gas from Libya and Algeria (30 percent), Norway (30 percent), and

Russia (30 percent). Edison plans to invest two to three billion euros in the near future on projects that will expand its ability to import natural gas independent of Eni.

110. (SBU) Edison has partnered with ExxonMobil and Qatar Gas in the construction of a regasification plant near Rovigo, on the Adriatic Sea. Long stalled by NIMBYism, Poti said the plant will open in 2008 with a capacity of eight bcm/year, which will be provided by Qatar Gas. Poti noted that Rovigo will be the first non-Eni facility to bring natural gas to the Italian market. In this way, he noted, it is similar to the Turkey-Greece-Italy Interconnector, which will introduce Azeri natural gas to the European market outside of channels owned by Eni or Gazprom.

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Edison's Presence in Iran
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111. (SBU) Poti said Edison has no "impressive" investments in Iran (relative to the estimated 2.5 billion dollars Eni has spent there). He estimates Edison has invested between 50 and 100 million dollars in Iran in oil and gas exploration. While Edison has a representative office in Iran, it has never had any production in Iran, and has no active wells in Iran. Poti noted that Edison had been awarded the concession for the construction and operation of a power plant, but that the project never went through because of concerns about expropriation. The way the contract was written, the power plant project "was not bankable," according to Poti. Poti did not rule out future investments in Iran, because Edison needs oil and gas to fuel its power plants in Europe and "it is always possible we might invest" in Iran.

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Comment

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¶12. (SBU) Completion of the TGI Interconnector will be a large step towards making the GOI's vision of Italy as a "southern gas hub" for Europe a reality and will help bring stability to European energy markets through the introduction of market-priced natural gas. Poti was clearly concerned that Russia's influence on Turkey may cause the GOT to delay completion of the Turkish leg of the TGI, and cited Turkey's silence on the proposed trilateral (GOI-GOG-GOT) agreement on the TGI as evidence of this. While he admitted that a trilateral agreement is not necessary for the completion of the TGI, Poti said it would provide needed "political cover" for the project and said a trilateral agreement might help Turkey finance upgrades to its existing natural gas pipelines as a part of the TGI Interconnector. A trilateral agreement might also help Edison and DEPA counter Albanian efforts by to have the pipeline routed through Albania. End comment.
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